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TARIFF BARGAINING UNDER THE NEW DEAL

by
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with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

WITHIN a few days Congress is expected to pass a bill granting the President authority to raise or lower tariff rates by an amount not exceeding 50 per cent in reciprocity agreements with foreign nations.[1] Thus empowered, the administration will be in a position for the first time to apply the principles of the New Deal to the commercial policy of the United States. Although the Democratic party had vigorously assailed the Smoot-Hawley tariff in the 1932 campaign,[2] specific measures for its revision had been repeatedly delayed because of preoccupation with domestic problems. Coming into power at a time when international commerce had been reduced to scarcely a third of its previous value,[3] the Roosevelt administration sought first to revive trade through multilateral action at the World Economic Conference in London. But before effective steps could be taken in this direction, the urgency of the domestic crisis led to the formulation of a national recovery program involving depreciation of the dollar in terms of foreign currencies. The fundamental inconsistency of attempting to restore world trade while pursuing a nationalistic monetary policy resulted in a complete impasse at the London Conference.[4] Faced by a choice between two irreconcilable alternatives, President Roosevelt emphatically rejected, in his message of July 2, all proposals for restoring international monetary stability, on the ground that a "sound internal economic system" is of greater importance to a nation than "the price of its currency in changing terms of the currencies of other nations."[5]

This statement, however, marked the extreme in the pendulum swing toward economic isolation. Gradually a renewed interest in international cooperation became apparent. On July 21 the United States submitted a plan to the London Conference for reducing trade barriers by reciprocal agreements which, although not adopted, provided a carefully worked-out formula for tariff revision.[6] Five months later a similar proposal, made at the Pan-American Conference at Montevideo, was accepted as a basis for bilateral negotiations.[7] The possibility of concluding such trade pacts was greatly enhanced, moreover, by the tentative stabilization of the dollar on January 31, at 59.06 per cent of its former gold value.[8] Shortly afterwards, on February 12, the Export-Import Bank was created in Washington for the purpose of financing exports to the Soviet Union, followed in turn by the establishment of two additional banks—one to facilitate trade with Cuba and the other to perform a similar function for other foreign countries.[9] Finally, recognizing the necessity of rounding out the recovery program by definite measures to stimulate exports, the President asked Congress on March 2 for power to make tariff concessions in negotiating bargaining agreements.[10]

DECLINE IN AMERICAN EXPORTS

Many factors have contributed to this swing back toward a greater appreciation of the value of world interdependence. Within recent months it has become increasingly evident that national recovery unaccompanied by a revival of foreign trade would necessitate domestic readjustments of a drastic character.[11] As the United States normally exports more than half of its cotton, a third of its tobacco and a fifth of its wheat,[12] permanent loss of the world market threatens disaster to the agricultural regions of the South and West.[13] It has been esti-

1. For text of bill as passed by the House of Representatives, cf. *H.R. 8687*, 72nd Congress 2nd Session.
2. Cf. *Campaign Book of the Democratic Party, 1932* (New York, The Democratic National Committee), p. 56-72.
3. The value of world trade, measured in total imports, fell from $35,606,000,000 in 1929 to $11,937,000,000 in 1933. League of Nations, *Monthy Bulletin of Statistics*, March 1934.
4. Cf. M. S. Stewart, "International Aspects of Roosevelt's Monetary Policy," *Foreign Policy Reports*, January 31, 1934, p. 270-4.
5. U. S. Department of State, *Press Releases*, July 8, 1933.
6. For text, cf. League of Nations, Monetary and Economic Conference, *Reports Approved by the Conference on July 27, 1933, and Resolutions Adopted by the Bureau and Executive Committee*, C.435.M.220.1933.II., p. 41-3.
7. Cf. Seventh International Conference of American States, *Final Act* (Provisional Edition), p. 14-17.
8. Cf. *New York Times*, February 1, 1934.
9. Cf. *ibid.*, February 13, 17, 27, 28; April 6, 1934.
10. *Ibid.*, March 3, 1934.
11. Cf. Henry A. Wallace, "America Must Choose," *World Affairs Pamphlets* (New York, Foreign Policy Association and World Peace Foundation), No. 3, February 1934, p. 6-17.
12. For details, cf. *Commerce Yearbook, 1931* (Washington, Government Printing Office), Vol. 1, p. 90.
13. Cf. Peter Molyneaux, "What Economic Nationalism Means to the South," *World Affairs Pamphlets* (New York, Foreign Policy Association and World Peace Foundation), No. 4, April 1934.

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mated that, unless the trend toward economic nationalism can be ch cked, from 40 to 100 million acres of American agricultural land will have to be retired from cultivation, which in turn would involve shifting a large portion of the population of certain regions to sections where they might find profitable employment.[14] Similarly, certain mass-production industries in the United States require an export market for the most efficient use of their productive capacities,[15] and the disappearance of this outlet would mean widespread unemployment and loss of consuming power. The following table indicates the extent to which the decline in foreign trade in the past four years has affected certain of the leading American exports. With the exception of automobiles and cotton goods, the United States has exported in normal times at least 15 per cent of the domestic production of each of the articles listed.

EXPORT OF LEADING AMERICAN PRODUCTS, 1929-33*

	1929		*1932*		*1933*		*Per cent of change 1929 to 1933*	
	Quantity	*Value†*	*Quantity*	*Value†*	*Quantity*	*Value†*	*Quantity*	*Value*
Total Exports	......	5,157	......	1,576	......	1,647	—48	—68
Agricultural machinery	......	141	......	11	......	12	......	—91
Automobiles and parts (thousands of cars and trucks)	536	885	66	76	108	91	—80	—90
Cotton manufactures (millions of sq. yds.)	564	135	375	46	302	39	—46	—71
Typewriters and parts (thousands)	425	23	140	6	166	6	—61	—74
Copper (millions of lbs.)	998	183	328	21	350	25	—65	—86
Gasoline (millions of bbls.)	60	267	34	79	26	58	—57	—78
Lubricating oil (thousands of bbls.)	10,653	103	6,731	48	8,111	55	—24	—47
Rosin (thousands of bbls.)	1,438	20	1,098	6	1,213	8	—16	—60
Raw cotton (millions of lbs.)	3,982	771	4,803	345	4,523	398	—14	—48
Lard (millions of lbs.)	829	106	552	32	584	34	—30	—68
Tobacco (millions of lbs.)	566	146	411	66	439	83	—23	—43
Wheat and flour (millions of bu.)	154	192	82	51	28	19	—78	—90
Total Imports		4,399		1,323		1,449		—67

*Sources: *Summary of United States Trade with World, 1933* (U. S. Department of Commerce, 1934), p. 26-7; *Commerce Reports* (U. S. Department of Commerce), February 17, 1934; *Commerce Yearbook, 1930, 1932.*
†Value in thousands of dollars.

While other nations have also suffered a serious contraction in both the volume and value of their trade, American losses since 1929 have been greater than those of any other country.[16] Despite domestic recovery during the past year, exports from the United States, measured in terms of gold dollars, declined 19 per cent as compared with 1932, although the total of world exports fell only 13 per cent; and for the first time since 1914, the sale of American goods abroad was smaller in value than that of the United Kingdom.[17]

The Democratic party has attributed this catastrophic decline in exports primarily to the high tariff policy of the successive Republican administrations from 1921 to 1933.[18] It insists that in the long run a nation's exports, visible and invisible, can be no greater than its imports, and that by narrowing the market for foreign products in this country, the United States has made it extremely difficult for foreigners to obtain the dollars which are required to purchase American products. In his message to Congress on March 2, President Roosevelt pointed out the importance of reviving foreign purchasing power if export industries are to be saved from

> ". . . the heart-breaking readjustments that must be necessary if the shrinkage of American foreign commerce remains permanent.
>
> "If American agricultural and industrial interests are to retain their deserved place in trade," he added, "the American government must be in a position . . . to grant with discernment corresponding opportunities in the American market for foreign products supplementary to our own . . . Legislation such as this is an essential step in the program of national economic recovery which Congress has elaborated during the past year."[18a]

The existence of vast potential opportunities for the development of world trade was

14. Cf. Wallace, "America Must Choose," cited, p. 10-11.

15. For a table showing the degree to which certain industries are dependent on foreign trade, cf. M. S. Stewart, "Tariff Issues Confronting the New Administration," *Foreign Policy Reports*, March 29, 1933, p. 17.

16. The share of the United States in world exports during recent years has been as follows: 1929, 15.6%; 1930, 14.3%; 1931, 12.6%; 1932, 12.4%. (League of Nations, *Review of World Trade, 1932*, Geneva, 1933, p. 27.)

17. Cf. *Summary of United States Trade with World, 1933*, cited, p. 11-12, 34.

18. Cf. *Campaign Book of the Democratic Party, 1932*, cited, p. 66-72.

18a. *New York Times*, March 3, 1934.

emphasized by Secretary Hull before the House Ways and Means Committee on March 8:

> "If foreign trade had gone forward with the annual ratio of gain existing before the war . . . there would be today an annual international commerce of near $50,000,000,000, instead of the pitiable figures of less than $12,000,000,000 for 1933. . .
>
> "There are in the world today 30,000,000 wage-earners accustomed to employment who are unemployed. Near 80 per cent of the world's population of 2,000,000,000 persons are today living below the poverty line. Some enterprising nation or nations will and must produce and export the many different commodities necessary to supply these people thus in need. . .
>
> "The theory that to shut out international trade results in an increase in the sum total of domestic trade is dispelled by all the facts and figures . . . Instead of increasing as our foreign trade decreased, our domestic trade decreased at a similar huge rate."[19]

AMERICA'S CREDITOR POSITION AND CURRENCY DEPRECIATION

A resumption of trade is particularly necessary if the United States is to obtain any real profit from its position as a leading creditor. If repayment of the 25 billion dollars loaned abroad is desired, some provision must be made for receiving it in the only ways in which real value can be transferred from one nation to another—either in goods or services. The failure of this country to adjust itself to its creditor position during the post-war period, except temporarily through foreign loans, is believed by many authorities to have been one of the chief factors in the world depression.[20] The economic dislocation resulting from this basic error has recently been accentuated, moreover, by the depreciation of the dollar in terms of foreign currencies. From the point of view of the American purchaser, the devaluation of the dollar to 59 per cent of its former gold value has had the effect of imposing an additional tariff of 69 per cent on imported goods, except where foreign currencies have also depreciated—a barrier which will continue to exist until American prices have risen or gold prices fallen sufficiently to restore equilibrium.[21] While this added protection for American producers has been offset in part by the rise in industrial wages under the N.I.R.A., the added costs do not even approach the advantage gained through the decline of the dollar.[22] The situation has been further complicated by the fact that, in addition to restricting imports, a depreciated currency acts as a temporary bounty to exports, thus repeating the errors of post-war commercial policy under a different guise.[23]

COST OF TARIFF TO THE AMERICAN CONSUMER

Opponents of the traditional tariff system claim, moreover, that it places a burden on the American consumer wholly incommensurate with the benefits received.[24] A protective tariff, by definition, restricts trade and permits relatively inefficient producers to dispose of their output on the home market at prices substantially above those of the outside world.[25] The revenue collected, although clearly coming out of the pockets of the consumers, cannot, however, be considered as wholly a liability, since it permits a corresponding reduction in some other form of taxation. The real burden of tne tariff is not to be measured by the increased cost of imported articles, but by the uneconomic cost of domestic products, sold above world prices, and by limitation of consumption as a result of increased prices.

Because of the complexity of the problem, no statistically accurate estimate of this cost has ever been made. The extent to which home-produced goods are more expensive than similar duty-free imports varies with each commodity. Although the prices of such goods cannot ordinarily be greater than world prices plus shipping charges and duty, and are frequently less, it is impossible to determine how much less. A rough estimate may be obtained, however, by applying the formula used in a recent study of the Australian tariff:[26]

> a. When it is clear that imports contribute a substantial proportion of the quantity of any particular goods consumed, it may be expected that the price of home-made goods is at least equal to that of imported goods plus duty, and the excess cost of such articles is the maximum possible for the particular rate of duty.
>
> b. When the imports of the whole of any class of goods are relatively small, so that consumption is almost entirely of domestic goods, it may be presumed that the price of the domestic product is somewhat below that of the imported goods after the duty has been paid. In such cases the excess cost may be estimated to average at least one-half the possible maximum.

While this method of estimating the cost of the tariff seems at first sight to be extremely

19. U. S., House of Representatives, 73rd Congress, 2nd Session, *Hearings before the Committee on Ways and Means on H.R. 8430* (Washington, Government Printing Office, 1934), p. 3-6.

20. For full development of this point, cf. M. S. Stewart, "American Commercial Policy and the World Depression," *Foreign Policy Reports*, May 25, 1932.

21. Cf. statement by Secretary Roper before the House Ways and Means Committee on March 8, 1934. *Hearings before the Committee on Ways and Means on H.R. 8430*, cited, p. 65-66.

22. *Ibid.*; for estimate of increased labor costs under the N.I.R.A., cf. *Standard Trade and Security*, Vol. 69, No. 39, Section I, September 29, 1933.

23. For fuller treatment of the effect of American monetary policy on trade, cf. Stewart, "International Aspects of Roosevelt's Monetary Policy," cited, p. 277-279.

24. For a detailed discussion of the effect of the tariff on prices, cf. P. G. Wright, *Protection—Benefits and Burdens* (Freeport, Ill., The Rawleigh Foundation, 1930), p. 16-25.

25. *Tariffs: The Case Examined*, edited by Sir William Beveridge (Longmans, 1932), p. 31-7.

26. Cf. J. B. Brigden, D. B. Copland, E. C. Dyason, L. F. Giblin, and C. H. Wickens, *The Australian Tariff: An Economic Enquiry* (Melbourne University Press, 1929), p. 37.

arbitrary, the errors involved would tend to cancel out, giving at least an approximate measure of excess costs. The chief difficulty involved in an attempted application of this measure to American conditions lies in the inadequacy of statistics on domestic production. Only in the case of a few of the principal products is the available material sufficient for even the rough estimate desired. Moreover, there are many articles, particularly those which are imported in negligible quantities because of high protective duties, where the influence of the tariff cannot be determined. Despite these handicaps, some conception of the size of the bill paid by the American public for protection may be gained by applying the above formula to a few of the heavily protected commodities that continue to be imported into the United States in considerable amounts.

COST OF THE TARIFF TO THE CONSUMER WITH RESPECT TO CERTAIN PRODUCTS*

Product	*Year*	*Percentage Imported by quantity*	*Duty*	*Value of Dutiable Imports†*	*Value of Domestic Production†*	*Estimated Cost of Tariff†*
Class A—Imports considerable						
Sugar	1933	26	2¢ lb	1,630[a]	4,605[a]	$184,200
Cattle Hides	1930	21	10%	$24,269	$91,000	8,270
Epsom Salts	1931	12	¾¢ lb	61	1,524	515
Soy Bean Oil	1931	9	3½¢ lb	139	d	1,368
Peanut Oil	1932	11	4¢ lb	91	d	514
Watch Cases	1931	11	72%	118	2,160	900
Watch Movements	1931	12	88½%	2,745	14,795	6,900
Flaxseed	1931	57	65¢ bu.	14,125	13,285	7,150
Carpets, etc.	1931	17	60%	187	1,119	420
Tapestries, etc.	1931	18	55%	1,575	7,242	2,570
Ferro-manganese	1931	11	$42 ton	1,752	12,999	6,685
Class B—Imports small, relative to home production						
Wool, raw	1931	9.8	22–37¢ lb	8,738	251[b]	45,000
Dairy Products	1932	.5	various	13,098	$1,422,000	105,586[c]
Lead	1929	1.5	2⅛¢ lb	1,050	84,735	28,580
Cigars	1931	.3	76%	1,472	223,126	100,000
Peanuts, shelled	1929	7	6¢ lb	1,330	24,497	17,500
Onions	1931	.7	2½¢ lb	130	14,897	4,500
Beans, dried	1931	3	3¢ lb	1,282	31,199	19,200
Dyes, etc.	1931	5.5	51%	5,376	37,753	6,300
Plate Glass	1931	5	various	1,104	26,111	6,600
Dolls, etc.	1931	6	70%	627	9,392	1,935

Estimated cost of tariff on above products $554,693,000

a—Thousands of tons.
b—Millions of pounds of scoured and pulled wool.
c—Estimate by Renne.
d—No available statistics.

*Sources: U. S. Tariff Commission, "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," *Report of Tariff Commission in response to Senate Resolution 325* (72nd Congress, 2nd Session, Senate Document No. 180) Part I; *Commerce Yearbook, 1932;* Tariff Act of 1930; Ronald R. Renne, *The Tariff on Dairy Products* (Madison, Wisconsin, Tariff Research Committee, 1933); Willet and Gray, *Weekly Statistical Sugar Trade Journal,* 1934.
†—000's omitted.

Thus the total cost of the tariff to the consumer on the above twenty-one products, the imports of which constituted less than 15 per cent of the total dutiable imports of the United States, was more than half a billion dollars.

While protectionists do not deny that tariffs tend to raise prices, they insist that the money expended by virtue of the higher prices goes entirely to American producers, leaving no net loss in dollar purchasing power. The very fact that the domestic prices of many commodities are so much higher than those of the outside world is taken as an indication of the need of protection if the American producer is not to be completely eliminated. Since the recipients of the bounty thus provided would presumably spend the entire amount on American products, it is further argued that by keeping the money within this country, greater employment will be given and American economy correspondingly strengthened.[27]

This interpretation, however, is said by advocates of tariff revision to rest on a confusion, which results from thinking of the problem in terms of money instead of what money will buy. Greater clarity is possible when it is realized that the American consumer has received nothing in exchange for the extra amounts expended on tariff-protected articles, thus suffering a definite lowering in living standards. By diverting labor and capital from the nation's most efficient industries, the tariff serves to reduce the amount and range of commodities available for general consumption.

27. Cf. editorials in *New York American, passim.*

POSSIBLE AMERICAN CONCESSIONS

Contrary to common belief, certain import opportunities could be provided by reciprocal trade agreements without seriously affecting American producers. On a number of articles the duty at present is so high that a substantial reduction would still leave an adequate margin of protection. Other changes might curtail the output of certain styles or varieties of a product without greatly affecting the industry as a whole. In other cases, inefficient units might be adversely affected by tariff revision without seriously injuring the bulk of an industry.[28] For articles on which transportation costs are high in relation to price, a reduction of duties might allow imports near the seaboard, while leaving the domestic industry a virtual monopoly of the great internal market. Only in cases where the United States is peculiarly unsuited for the production of certain articles is there likelihood that a whole industry would be destroyed by a reasonable modification of the tariff.

In principle there is little disagreement among authorities regarding the type of product on which the United States can best afford to make tariff concessions in reciprocity agreements. American policy in this respect was set forth definitely at the London Economic Conference and reiterated at the Pan-American Conference at Montevideo, although mention of tariff charges on specific articles has always been carefully avoided for fear of provoking premature opposition on the part of organized vested interests. It is apparent that the first and greatest efforts for the reduction of existing trade barriers should be concentrated on reducing duties which most clearly lack economic justification, particularly:

(a) Duties which now completely or almost completely exclude foreign competition, such as those which restrict imports to less than 5 per cent of the domestic consumption.[29, 30, 31]

(b) Abnormally high rates of duty, especially those over 50 per cent *ad valorem*.[30]

(c) Duties on articles the imports of which have been substantially curtailed in recent years as compared with domestic consumption.[31]

(d) Protective duties which have been in effect a considerable period of time without bringing a substantial production of the protected commodities in relation to total domestic requirements.[29, 30, 31]

(e) Duties on articles which are more or less non-competitive with American products with respect to which foreign countries possess a clear inherent advantage.[32]

Protection of an industry may be frequently defended, however, on grounds quite apart from its relative efficiency. Such factors as the industry's importance to national defense, the extent of its concentration, the amount of capital invested, the number of workers employed and its relative wage level must be taken into consideration in determining the policy to be adopted in any particular case.[33] No comprehensive study of the American economic structure has ever been made which would enable the administration to classify all imported commodities in accordance with these criteria, but the recent investigations conducted by the Tariff Commission give some conception of the range of articles on which moderate tariff reduction could be carried through without harmful consequences.[34]

DUTIES WHICH EXCLUDE FOREIGN COMPETITION

The Tariff Commission's investigations revealed, for example, that in 1931 there were no less than 1,021 dutiable articles of which imports represented less than 5 per cent of domestic production. In a very large proportion of instances, imports were less than one per cent of the amount produced in the United States. The following list contains only a few of the more important of these commodities:

A. *Dutiable articles of which there were no imports*

Liquid ammonia	Lead arsenate
Malt extract	Test boards
Tin compounds	Chewing gum

B. *Dutiable articles of which imports were less than one per cent of domestic production*

Blackings, stains, etc.	Machines, etc.
Vulcanized fibre	Zinc ore
Printing ink	Candy
Lead pigments	Tobacco manufactures
Soap, unperfumed	Cigars, cheaper grades
Salt, in bulk	Cattle
Fire brick	Sheep
Limestone	Bacon, ham
Portland cement	Macaroni
Ball bearings	Rice
Bottles, etc.	Wheat flour
Mirrors	Cottonseed
Granite	Apples
Sandstone	Raisins
Iron & steel scrap	Sugar beets
Alloy steel	Onions
Tinplate, etc.	Cabbage
Covered wire	Chocolate
Storage batteries	Carpets & rugs
Aluminum utensils	Cotton cloth

28. Cf. U. S. Tariff Commission, "Range and Variety of Costs," *Report of the Tariff Commission in response to Senate Resolution 325*, Part III.

29. U. S. State Department, "United States Economic Proposals before the Seventh International Conference of American States," *Press Releases*, December 16, 1933.

30. U. S. Tariff Commission, *Tariff Bargaining under Most-Favored-Nation Treaties*, Report No. 65 (2nd series), p. 2.

31. Cf. "American Suggestions on Commercial Policy presented to the London Economic Conference," *Reports Approved by the Conference on July 27, 1933, etc.*, cited.

32. "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," Part I, cited, p. 461.

33. Cf. *Tariff Bargaining*, radio address by Francis B. Sayre (Washington, Government Printing Office, 1934).

34. Cf. "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited, Part I, p. 461.

Steel rails	Cotton shirts
Electrical machinery	Wool yarns
Safety razor blades	Wool fabrics
Clocks, etc.	Silk hosiery
Automobiles, etc.	Leather
Locomotives	Auto tires

C. Dutiable articles of which imports were more than one but less than 5 per cent of domestic production

Medicinals	Potatoes
Window glass	Cream
Pig iron	Canned fish
Nails, etc	Dried beans
Textile machinery	Cotton hosiery
Lead	Silk fabrics
Furniture	Rayon

ABNORMALLY HIGH DUTIES

Many of these same articles would also appear on a list showing the commodities which bear an extremely high rate of duty. On clocks, for example, the duty was equivalent to 108.5 per cent in 1931, on wool fabrics it was 84 per cent, on silk hosiery 60 per cent and on onions 148 per cent.[35] The decline in prices between 1929 and 1933 has served to make all specific duties much higher than was intended, and in some cases the resultant increase in tariff has been almost fantastic.[36] The Tariff Commission has listed 540 articles on which the duty exceeded 50 per cent in 1931,[37] of which a few were 200 per cent and upward. While the height of a duty is not a criterion by which a domestic industry may be judged, a high tariff frequently conceals the inherent weakness of an enterprise. A rate of 25 per cent on some commodities, however, may be more restrictive than 50 or 100 per cent on others.

IMPORTS WHICH HAVE SUBSTANTIALLY DECLINED

With some of these articles and many others, imports have declined drastically during the past four years in comparison with domestic production. A mere reduction in the value of the imports of a given commodity since 1929 is, of course, of little significance in view of the general drop in world prices resulting from the depression. But where imports have fallen more than consumption, it is apparent that the tariff is serving to restrict trade, and that it is higher than can be justified on the ground of protecting the existing status of American industries. The following articles are merely illustrative of a tendency which applies to a substantial proportion of the items on the American tariff schedule.[38]

ARTICLES OF WHICH IMPORTS HAVE SUBSTANTIALLY DECREASED

Commodity	*Chief sources of import in recent years*	*1931 Imports as percentage of 1929*	*1931 Domestic production as percentage of 1929*	*Ad valorem equivalent of duty*
Soy bean oil	Manchuria	24	356	97.7%
Earthen tiles, etc.	Germany	23	72	56.4
China & porcelain articles	Japan	37	61	83.7
Bottles, jars, etc.	Germany	34	85	23.8
Plate glass	Belgium	45	59	86.9
Mirrors	Germany	14	56	45.
Spectacles	Germany	28	76	51.2
Optical instruments	Germany	38	58	45.
Iron & steel scrap	Canada	18	47	10.4
Ferro-manganese	Canada	35	48	47.9
Safety razor blades	U. K.	4	72	61.
Watch movements	Switzerland	17	54	88.5
Clock movements	Germany	32	86	108.4
Aluminum	Canada	29	74	23.6
Sugar	Cuba	66	117	152.3
Manufactures of tobacco	U. K.	77	97	49.6
Cigars	Cuba	64	82	76.3
Cattle	Canada	14	101	40–46
Dressed Beef	Canada	4	102	72.3
Lamb	Canada	4	126	73.5
Milk	Canada	13	105	41.7
Cream	Canada	3	108	35.5
Eggs (frozen), etc.	China	5	98	77.5
Wheat flour	Canada	15	96	29.6
Figs	Turkey	30	171	63.3
Lemons	Italy	43	136	89.6
Peanuts	China	11	113	158–246
Dried Beans	Japan	45	104	98.4
Onions	Spain	11	74	148.2
Cocoa	Holland	13	98	40.
Wool (except carpet)	Australia	35	119	88.
Wool yarn	U. K.	62	89	63.4
Wool fabrics	U. K.	27	71	84.
Rayon yarns	Germany	12	116	63.8
Rayon knit fabrics	France	25	100	68.6
Wrapping paper	Sweden	41	87	30.
Jewelry, etc.	Czechoslovakia	21	49	106.5
Cattle hides	Argentina	36	99	10.

DUTIES ON NON-COMPETITIVE PRODUCTS

Among the industries clearly unsuited to American conditions are those which, despite substantial protection over a number of years, have been unable to provide a significant proportion of this country's consumption requirements. American olive oil producers, for instance, provided only two per cent of the total domestic consumption in 1932, although protected by a duty averaging over 75 per cent.[39] In order to prevent the destruction of this industry, the American consumer paid over $5,150,000 in duties—or the equivalent of $17 for each gallon of domestically produced oil. Sunflower-seed and poppy-seed oils also carry substantial duties even though there is no domestic production,[40] while a processing tax of 5 cents a pound was imposed on cocoanut, sesame, palm-kernel, sunflower and certain imported fish oils in the revenue act of 1934.[41] Similarly, there is a 90-per-cent duty on embroidered linen handkerchiefs despite the fact that in 1931 domestic production was valued at only $90,000 as against imports of over $2,266,000.[42] Other examples are given in the following table, which lists only the more important articles in this class.

DUTIABLE ARTICLES OF WHICH THERE IS LITTLE OR NO DOMESTIC PRODUCTION*

(values in thousands of dollars)

Commodity	*Chief source of supply*	*Ad valorem equivalent of duty*	*Value of imports*	*Value of domestic output*
Menthol	Japan	18.5%	883	75
Olive oil	Italy	66.	8,453	**
Sunflower-seed oil	Holland	20.	143	none
Vanilla beans	France	33.4	1,216	none
Christmas tree ornaments	Germany	60.	569	none
Manganese ore	U.S.S.R.	101.3	3,103	†
Anchovies, in oil	Italy	30.	560	none
Dates	Iraq	26–29	3,379	†
Limes	B. W. I.	53.9	211	†
Almonds, shelled	Spain	71.4	2,716	905
Hyacinth bulbs	Holland	11.4	702	**
Brazil nuts	Brazil	25–30	2,317	none
Coconuts	Jamaica	29.4	1,010	**
Cashew nuts	India	10.	2,074	none
Castor beans	India	21.9	2,359	none
Dried mushrooms	U.S.S.R.	63.	343	none
Flax fibre	U. K.	14.8	687	**
Jute fabrics	India	15.	28,867	none
Linen fabrics	U. K.	35.	4,304	none
Linen damask	U. K.	45.	2,943	none
Linen handkerchiefs	U. K.	35–53	2,050	**
Oriental rugs	Persia, China	66.9	7,725	none
Beads, etc.	Czechoslovakia	35–45	3,589	**
Fibre hats, etc.	Italy, Japan	25.	11,950	none
Dressed furs	China	26.2	4,836	**
Lace, handmade	China	90.	455	none
Embroidered linen and silk goods	China, France	90.	3,482	**
Embroidered linen handkerchiefs	U. K., China	90.1	2,266	90

*All figures for 1931. Source, "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited, Part I.

†Not available, but less than 10 per cent of domestic consumption.

**Negligible.

35. Other duties abnormally high on the articles listed were: salt, 59.7%; limestone, 74.5%; window glass, 62.3%; granite, 60%; furniture, 40%; aluminum utensils, 56%; cigars, 76.3%; dried beans, 98%; wool yarns, 84%; and rayon 63.7%.

36. The *ad valorem* equivalent of specific duties on certain articles in 1932 were as follows: caffeine, 209%; potato starch, 148%; toilet waters (containing alcohol), 118%; soy bean oil, 126%; razors, etc., 238%; pocket knives, 179%; tungsten ore, 211%; iron and steel scrap, 219%; cane and beet sugar, 198%; leaf tobacco (Sumatra), 184%; lupulin, 378%; avocados (Mexico), 322%; cabbage, 191%; match splints, 300%; thermos bottles, 223%; tooth brushes, 164%.

37. "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited, p. 325-409.

38. *Ibid.*, p. 2-208.

39. *Ibid.*, Part I, p. 467.

40. *Ibid.*

41. *Ibid.*

42. Cocoanut oil and copra from the Philippines is to be taxed only 3 cents a pound, and the revenue turned over to the Island treasury. (Cf. *New York Times*, April 26, 1934.)

In addition to the obvious desirability of reducing duties on wholly non-competitive commodities, consideration should also be given to the articles now produced under tariff protection which could be more advantageously purchased from abroad. By encouraging the expansion of marginal industries, the tariff frequently tends to be a handicap rather than an aid to the maintenance of high living standards. An example is the beet-sugar industry which despite a duty of 150 per cent on imports from Cuba has always paid notoriously low wages to its workers.[43] Contrary to protectionist doctrine, however, this tariff has not enabled the United States to make any appreciable headway toward self-sufficiency as far as sugar is concerned. Only about one-fifth of the total domestic consumption is produced in the continental United States, and approximately 50 per cent must still be imported in spite of the heavy duty.[44] It has been estimated that the sugar tariff costs the American people approximately $200,000,000 annually, although the value of the yearly output of the domestic sugar interests is only $60,000,000.[45] Sugar is but one of 352 articles listed by the Tariff Commission as commodities in which certain foreign countries have a definite advantage. In most cases the advantages of foreign producers are due to natural causes, such as climatic or geographical differences, but with certain articles, particularly those involving large amounts of hand labor, American workers lack the skill and experience necessary for efficient production. In addition to those given above,[46] the following are among the more important products on which the foreign advantage is apparent.

Commodity	*Principal Source of imports*	*Ad valorem equivalent of duty**
Dyes, etc.†	Germany	51.4%
Quebracho extract	Argentina	15%
China and porcelain	Japan, Germany	84%
Watch movements	Switzerland	88.5%
Quicksilver	Spain	68.7%
Sugar	Cuba	152.3%
Tobacco for cigar wrappers	Sumatra	50–152%
Tobacco for cigar filler	Cuba	45–50%
Carpet wool	Asia	114.3%
Lace articles	China	90%
Machine-made lace**	France	90%
Embroidered cotton (machine-work)	Switzerland	90%

*Source: "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited. All figures are for 1931, except that for quicksilver which is for 1932.

†In 1931, of 359 types imported, 228 were non-competitive.

**Imports are of a finer quality than domestic production, due to hand finishing.

ARTICLES IN WHICH THE U. S. HAS AN ADVANTAGE

On the other hand, the United States clearly possesses a competitive advantage with respect to more than 200 different products which it normally exports in substantial quantities. Chief of these is cotton, which in 1932 constituted 21 per cent of American exports. In other countries with suitable soil and climate, production of cotton has hitherto been restricted by lack of labor and transportation, as well as by the high cost of experimentation.[47] The annual output of short-staple cotton in the United States is three or four times as large as that of India, the next largest producer, and is of somewhat superior quality. By virtue of its mass-production methods, the United States also has a significant advantage in the production of many kinds of machinery, particularly automobiles and agricultural implements. The following is a list of the twelve principal classes of exports, together with the factors which favor the domestic producers. These twelve classes represented 73 per cent of the total exports of the United States in 1932.

Commodities	*Value of exports 1932 (in millions of dollars)*	*Favorable factors**
Raw cotton	345	ABE
Petroleum & products	208	ACDEF
Machinery	132	CDEG
Fruits and nuts	77	ACDE
Automobiles, etc.	76	CDEG
Tobacco, raw	66	AE
Packing-house products	55	ABD
Wheat and flour	51	BDE
Cotton manufactures	45	DEF
Coal and coke	44	AF
Chemicals	44	ACDEG
Iron and steel products	29	ACDEF

*Meaning of symbols: A—special resources, particularly as regards minerals, climate and soil; B—large supply of suitable land; C—large domestic market; D—efficiency; E—quality or reputation; F—geographical propinquity and transportation facilities; G—consuming habits similar to American. (Adapted from the Tariff Commission's reports by Robert S. Field, Philadelphia.)

43. In 1933 it was reported that the average annual income of beet-sugar workers in Colorado was $78.00, a reduction of 41 per cent from that of 1924 when the duty on sugar was substantially lower. (*Statement on Conditions Relating to Sugar-Beet Workers in Colorado*, Submitted by Charles E. Gibbons, representing the National Child Labor Committee, at the hearing on the Sugar Stabilization Agreement, August 11, 1933.)

44. Cf. *Commerce Yearbook, 1932*, p. 166 *et seq.*; also J. C. de Wilde, "Sugar: An International Problem," *Foreign Policy Reports*, September 27, 1933, p. 169.

45. Cf. President Roosevelt's message to Congress February 8, 1934 (*New York Times*, February 9, 1934); cf. also L. S. Ellis, *The Tariff on Sugar* (Freeport, Ill., Rawleigh Foundation, 1933).

46. Cf. p. 76.

47. Cf. "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited, Part II, p. 37.

SPECIFIC BARGAINING PROSPECTS

The conditions and problems faced by the administration in seeking to liberalize foreign trade through reciprocity agreements differ widely in the case of each of the various countries with which negotiations are contemplated. Since the United States is particularly interested at the moment in securing an outlet for its surplus agricultural products,[48] agreements with large industrial countries are especially desirable.[49] Special factors in the trade policy of many of these countries, however, make negotiations extremely difficult.[50] Yet many of the other countries depend chiefly on the export of agricultural products, and have little to offer that is clearly non-competitive with American supplies.[51] In a few, political factors appear to constitute an insuperable barrier to negotiations.[52] But despite the difficulties, a large market for American exports exists in most countries, provided the United States is willing to accept an equivalent amount of imports.[53]

The following table shows the balance of trade with each of the leading customers of the United States in 1933. It will be noticed that with 13 out of the 15 countries the United States had an export surplus.

U. S. BEST CUSTOMERS IN THE ORDER OF IMPORTANCE, 1933*
(*in thousands of dollars*)

Country	*Value of U. S. exports*	*Value of U. S. imports*	*Balance of trade*
United Kingdom ..	311,732	111,215	+200,517
Canada	210,526	185,125	+25,401
Japan	143,434	128,421	+15,013
Germany	139,967	78,168	+61,799
France	121,711	49,699	+72,012
Italy	61,240	38,571	+22,669
China	51,941	37,797	+14,144
Netherlands	48,717	30,949	+17,768
Belgium	43,267	23,176	+20,091
Mexico	37,520	30,716	+6,804
Argentina	36,929	33,836	+3,093
Spain	30,757	13,699	+17,058
Brazil	29,725	82,618	−52,893
Australia	26,283	7,680	+18,603
Cuba	25,093	58,437	−33,344

**Monthly Summary of Foreign Commerce of the United States*, December 1933, Part II, p. 38-39.

48. Cf. Wallace, "America Must Choose," cited.

49. It should be noted, however, that the exports of manufactured products in normal times are about as great as the exports of agricultural products.

50. Great Britain, for example, is partially bound by the Ottawa Agreements and by the recent quantitative restrictions imposed in connection with its internal agricultural program; France and Holland are limited by drastic quota arrangements; while negotiations with Japan are rendered extremely problematical because of the uncertainties of its currency policy.

51. This problem is especially acute in connection with many of the agricultural countries, such as Canada, Argentina, Australia, Ireland and Denmark.

52. This is especially true of Germany, because of the strength of the anti-Nazi boycott. A trade agreement with Japan is also unlikely until certain outstanding political problems are settled.

COLOMBIA

The sole trade agreement completed to date, now awaiting legislative approval, is that with Colombia. Although only a summary of this pact has been made public, it appears to offer but little in the way of trade expansion. In return for a promise on the part of Colombia that it will reduce its customs duties on certain American products and not increase them on others, the United States guarantees that certain Colombian products shall remain on the free list and shall not be subject to a federal excise tax, nor, as far as the laws on interstate commerce apply, to increased state taxation.[54] As American purchases of coffee—totalling $46,500,000 in 1932—constituted more than 76 per cent of the total imports from Colombia, it is evident that the specific guarantees must refer primarily to that product. Crude petroleum, with 18 per cent of the total, bananas (3.7%), and platinum (.7%) are the only other products bought in substantial quantities. Petroleum has been dutiable since June 21, 1932; bananas and platinum are still on the free list. American exports to Colombia in 1932 were only about one-sixth of its imports from that country, and were practically all subject to duty. Chief among these were cotton and cotton products—12 per cent of the total—medicinal preparations (4%), wire (3.7%), paraffin (1.7%), and automobile tire casings (1.2%).[55] The United States commercial treaty with Colombia, signed in 1846, contained a most-favored-nation clause of the conditional type.

CUBA

Among the pending agreements, that with Cuba is believed to be the most advanced.[56] American commercial relations with Cuba have long been in a special category as a result of the 1902 reciprocity treaty which provides for a reduction of 20 per cent from the regular tariff rates on all imports from Cuba, in return for even more favorable preferential treatment of American exports.[57] In recent years, however, the special position granted Cuba has been nullified by successive increases in the tariff on Cuba's

53. Preliminary conversations were held with several countries during 1933, of which those with Cuba, Argentina, Brazil, Colombia, Portugal and Sweden were the most advanced. All negotiations except those with Colombia have been suspended in recent months pending clarification of American policy. (Cf. "Foreign Tariffs and Commercial Policies during 1933," *Commerce Reports*, February 24, 1934.)

54. Cf. *Commerce Reports*, December 30, 1933, p. 431.

55. For further details, cf. *Reciprocal Tariff Negotiations* (Foreign Commerce Department, Chamber of Commerce of the United States, Washington, November, 1933); U. S. Tariff Commission, *An Analysis of Trade between Colombia and the United States*, prepared in response to Senate Resolution 334, 72nd Congress, 2nd Session.

56. Cf. *Diario de la Marina* (Havana), March 19, 1934.

57. For details, cf. U. S. Tariff Commission, *Reciprocity and Commercial Treaties, 1919*, p. 317-22.

chief export product—sugar—which has stimulated an excessive development of sugar production in the United States and its insular possessions.[58] The impoverishment resulting from the curtailment of Cuba's markets and the accompanying collapse of sugar prices has, in turn, reacted severely on its ability to buy American products. From 1922 to 1925 Cuba absorbed over 4 per cent of American exports, but the proportion fell to 1.8 per cent in 1932. Cuban imports from the United States dropped from $200,000,000 in 1925 to $25,000,000 in 1933, a decline of 87.5 per cent.[59] Recognizing that a revival in Cuban trade can only be achieved through restoration of the island's purchasing power,[60] President Roosevelt, upon the recommendation of the Tariff Commission, issued a proclamation on May 9 reducing the duty on Cuban sugar by half cent a pound.[61] The Secretary of Agriculture is also expected to fix the quota for Cuban sugar under the recently enacted Costigan-Jones bill at a figure slightly above the shipments for the last two years, although greatly below the post-war average.[61a] Some adjustment with regard to the duties on leaf tobacco, molasses, copper, manganese and pineapples would also appear to be in line with the principles set forth above as a basis for tariff revision,[62] while a seasonal tariff on fruits and vegetables should prove advantageous to Cuba without unduly injuring American producers. A reduction in the Cuban duties on cotton goods, flour and lard, on the other hand, should benefit both the American producer and the Cuban consumer. The following table shows the chief items of trade between the United States and Cuba in 1930.[63]

UNITED STATES IMPORTS FROM CUBA

Commodity	Value (in thousands of dollars)	Per cent of total
Total imports	116,051	100
Sugar, raw	61,993	53
Tobacco, leaf	16,277	14
Sugar, refined	11,970	10
Molasses	11,329	10
Cigars	2,465	2
Pineapples	1,656	1

UNITED STATES EXPORTS TO CUBA

Commodity	Value (in thousands of dollars)	Per cent of total
Total exports	91,872	100
Cotton manufactures	8,637	9
Lard, etc.	7,508	8
Machinery, etc.	6,785	7
Wheat flour	6,434	7
Iron & steel	5,392	6
Meats	4,523	5
Petroleum, etc.	4,440	5
Automobiles, etc.	4,117	4

58. Cf. R. L. Buell, "Sugar and the Tariff," Foreign Policy Association, *Information Service*, May 29, 1929, p. 109-16; also J. C. de Wilde, "Sugar: An International Problem," cited, p. 172.

59. *Commerce Yearbook, 1926*, Vol. I, p. 130; *Monthly Summary of Foreign Commerce*, December 1933, Part II, p. 38.

CANADA

From an economic as well as a sentimental or political point of view, the most important reciprocity pact that the administration could conclude would be with Canada. As the chief source of American imports and, next to Great Britain, the United States' best customer, Canada occupies a more important place in American trade than the whole of South America, Africa and Oceania combined. But the depression, together with the Ottawa Agreements of 1932, caused a decline in exports to Canada which has been much more severe than that of American trade as a whole.[64] While there has been widespread interest in both countries over the possibility of a new commercial agreement, reciprocity has been a political issue only in Canada where disillusionment with the Ottawa pacts has aroused a desire to regain its share in the American market. Even before President Roosevelt assumed office, it was announced that Prime Minister Bennett was planning to visit Washington to discuss means for developing trade relations.[65] His failure to make progress in this direction in his subsequent conversations with President Roosevelt has been made one of the chief points in the opposition's attack on the Canadian government.[66]

Out of fairness to Mr. Bennett it might be urged, however, that failure to achieve definite results last spring was due more to the basic difficulties involved than to any lack of will or energy on the part of either of the leaders. Canada is particularly interested in finding markets for its wheat, timber, copper, cattle, dairy products, potatoes and coal — all of which compete with American products. In addition, the Ottawa Agreements limit Canada's possible concessions by guaranteeing a specified margin of preference to Great Britain on 215 out of the 807 items of the Canadian tariff.[67]

Upon closer analysis, however, these difficulties do not appear as great as at first glance. A large share of Canada's timber exports, for example, are of a different grade from the American home-grown product, and to a lesser extent the same is true of its exports to this country of wheat, potatoes and other commodities. Even with competitive products, there are many localities along

60. Cf. President Roosevelt's message to Congress, February 8, 1934, cited.

61. Cf. *New York Times*, May 10, 1934.

61a. "Administration's Sugar Program Explained by Secretary Wallace," press release by the Department of Agriculture, March 16, 1934.

62. Cf. p. 74.

63. *Commerce Yearbook, 1932*, Vol. II, p. 410. (Cuban statistics.)

64. American exports to Canada in recent years have been as follows: 1929, $948,400,000; 1930, $659,100,000; 1931, $395,648,000; 1932, $241,351,492; 1933, $210,525,727.

65. Cf. *New York Times*, March 3, 5, 1933.

66. Cf. *Christian Science Monitor*, January 30, 1934.

67. For details, cf. Stewart, "The Ottawa Conference," *Foreign Policy Reports*, December 21, 1932, p. 249, 252.

the 3,000-mile United States-Canadian frontier where it is logical to purchase supplies across the border rather than pay transportation costs from more distant points within the country.[68] Moreover, special concessions are practicable under the most-favored-nation clause on many products of which Canada is the chief source of supply, including meats, fish, ferro-manganese, copper, aluminum and nickel.[69] Concessions might also be made, up to certain quantities, on such items as dairy products, cattle and potatoes, the imports of which now constitute less than one per cent of domestic consumption.[69a] Some observers particularly stress the desirability of lowering the American tariff on industrial raw materials and certain non-metallic minerals, which are processed with power, rather than labor,[70] in exchange for a corresponding reduction in Canadian duties on American coal, iron and oil. Canadian officials, for their part, maintain that a substantial expansion in the market for American exports is possible within the scope of the Ottawa pact.[71] For some years the Canadian tariff has had three columns of rates: the British preferential, which applies to goods imported from most parts of the Empire; the intermediate column, which applies to some twenty-five countries with which Canada has commercial treaties; and the general column, which applies to all the remaining countries, including the United States.[72] Even on articles where the Empire countries have been granted preference, the general tariff may be reduced,[73] while the establishment of the proposed new Dominion Marketing Board, with its sweeping powers over domestic and foreign trade, should considerably strengthen the government's hand in commercial negotiations with foreign countries.[74]

The leading articles of trade between the United States and Canada in 1930 were as follows:[75]

UNITED STATES IMPORTS FROM CANADA

Commodity	*Value (in thousands of dollars)*	*Duty*
Total	515,050	
Newsprint	126,289	Free
Timber	70,948	Various*
Precious metals	39,514	Free
Wood pulp	37,265	Free
Copper	34,086	4¢ a lb*
Nickel	14,944	3¢ a lb
Cattle	12,917	2½—3¢ a lb
Chemicals	12,536	Various
Fish, fresh & frozen	10,826	1—2¢ a lb
Asbestos	7,898	Free
Furs, undressed	7,603	Free
Wheat	7,487	42¢ a bu.

*Excise tax imposed June 21, 1932.

UNITED STATES EXPORTS TO CANADA

Total	847,442	
Machinery	140,054	10—35%
Iron and Steel	100,447	5—35%
Automobiles, etc.	69,538	20—40%
Coal	50,819	50—75¢ a ton
Petroleum	35,861	Free
Chemicals	26,982	Various
Cotton, raw	22,123	Free
Fruits	20,726	Various
Gasoline	18,868	1½—2½¢ a gal.
Cotton goods	16,491	25%+4¢ a lb

GERMANY

As an industrial country normally dependent on the import of foodstuffs, Germany presents perhaps the best economic possibility for a profitable reciprocity agreement with the United States. Although no immediate prospect of such a pact exists, in view of the highly nationalistic trend of present German policies, the situation illustrates the theoretical case for tariff bargaining. Germany has long been one of the United States' best customers, taking between 8 and 9 per cent of the total of American exports. Farm products made up slightly more than half of these exports in recent years, and much of the remainder consisted of basic raw materials.[76] American purchases in Germany were far more diversified but included a number of articles, such as chemicals, dyes, specialized machinery, earthen and glass ware, clocks and Christmas tree ornaments, on which tariff concessions might be made without injury to the domestic economic structure.[77] The most thorny question to be settled relates to the most-favored-nation clause. The United States has an unconditional most-favored-nation agreement with Germany which expires on October 14, 1935,[78] but it is doubtful whether a continuation of such treatment could be obtained if the issue were to be re-opened at the present time. The fol-

68. Possible examples are dairy products, cattle, potatoes, coal and manufactured articles.

69. For detailed tables showing the relative position of the United States and Canada as the source of supply of each other's imports, cf. U. S. Tariff Commission, *An Analysis of Trade between Canada and the United States, 1933*, cited.

69a. Based on 1932 figures.

70. This suggestion would apply particularly to the following metals for which the United States is wholly or partially dependent on foreign sources: tin, nickel, manganese, chrome, cobalt, tungsten, vanadium, antimony and aluminum.

71. Cf. *New York Herald Tribune*, April 25, 1933.

72. For details, cf. U. S. Tariff Commission, *Canadian Tariff and Other Trade Restrictions on Imports from the United States since 1922*.

73. The Imperial Economic Conference, 1932, *Report of the Conference*, Supplementary Volume, Annex V, United Kingdom-Canada Agreement, Article 9 (Ottawa, F. Acland, 1932).

74. Cf. *New York Times*, March 27, 1934.

75. *Commerce Yearbook, 1932*, p. 326-327 (Canadian statistics).

76. U. S. Tariff Commission, *An Analysis of the Trade between Germany and the United States*.

77. Cf. p. 74-77.

78. League of Nations, *Treaty Series*, No. 1254, Vol. LII, Nos. 1-4, 1926, p. 134.

lowing table shows the chief items in the trade between the two nations:[79]

UNITED STATES IMPORTS FROM GERMANY

Commodity	Value (in thousands of dollars)	Duty
Total	163,218	
Chemicals	30,547	Various
Leather, etc.	14,134	10—25%
Furs	12,015	Free; 25%; 30%
Iron and steel	10,967	10—60%
Cotton textiles	9,988	30—50%
Machinery	8,917	15—40%
Paper	6,272	Various
Glass & glassware	4,324	Various
Toys	4,154	60—70%

UNITED STATES EXPORTS TO GERMANY

Total	311,272	
Cotton	101,470	Free
Mineral oils	49,664	\$1.08—1.84 per 100 lbs.
Lard	17,401	11¢ a lb
Copper	15,195	Free
Fruits and nuts	14,370	Various
Timber	8,357	27¢ per 100 lbs.
Wheat	8,130	\$1.62 a bu.
Machinery	8,029	Various
Chemicals	7,523	Various
Furs, raw	7,454	Free

ITALY

The character of trade between the United States and Italy also presents favorable prospects for a reciprocity arrangement. Sixth among America's customers, Italy purchases about three per cent of the total exports of the United States, and furnishes from two and a half to three per cent of its imports. In 1928 the United States was second only to Germany as a market for Italy's exports, taking over 10 per cent of the total, and was by far the chief source of its imports. In every year except 1931, the United States has maintained a large favorable balance of trade with Italy, but since 1930 Italy has drastically curtailed foreign purchases by various devices in order to reduce its normal adverse balance with all countries.

Only 22 per cent of American imports from Italy consist of products on the free list, and all of these, with the exception of raw silk, have declined in value in the past few years.[79a] A large proportion of the dutiable imports, moreover, are of a specialized character and do not compete directly with American products. Cheese, edible olive oil, canned tomatoes and tomato paste, which constituted 36 per cent of all imports from Italy in 1932, differ in quality from similar articles produced in this country and are used largely by the Italian-born in the United States.[79b] To a lesser degree, this is also true of other important dutiable food products imported from Italy, which include lemons, cherries, almonds, filberts, walnuts, macaroni, and lemon and orange oil. Italy is also among the chief sources of supply for imports of hats, hat bodies, hemp, rayon yarns, cigarette leaf, laces and silk fabrics.

American exports to Italy, on the other hand, have consisted principally of five products. The two most important—cotton and wheat—have normally contributed more than 60 per cent of the total, while petroleum products, copper, and automobiles have made up the bulk of the remainder. In 1928 the United States was Italy's chief source of supply for all these products, but during the past few years it has lost ground to its competitors in the sales of all these articles except cotton. American losses have been particularly severe in the case of wheat and petroleum, because of the inroads of Soviet products on the Italian market.

Italy has already contracted some thirteen reciprocal tariff treaties with various countries, chiefly European. All tariff reductions made in this manner have been extended to other countries under most-favored-nation treaties.[79c] The general trend of Italian duties in the last few years, however, has been sharply upward. Due to the Fascist government's desire for self-sufficiency in foodstuffs, wheat and flour duties have been particularly affected, and beginning with 1931 a new restriction appeared in the form of an order requiring millers to mix 95 per cent of domestic wheat with imported wheat in the preparation of flour and *semolina*.[79d] American policy in negotiating a new tariff treaty would doubtless concentrate on securing the elimination or modification of these recent restrictions, in exchange for concessions on certain of the products listed above. Italy's recently announced intention of curtailing its wheat acreage,[80] together with Premier Mussolini's long-standing belief in direct negotiations,[80a] give promise that some agreement can be reached, although difficulties may arise from the obliga-

79. *Commerce Yearbook, 1932*, Vol. II, p. 118 (German statistics); cf. also *An Analysis of Trade between Germany and the United States*, cited.

79a. U. S. Tariff Commission, *An Analysis of Trade between Italy and the United States*, February 1934.

79b. The United States produces very little of the kind of cheese that is imported from Italy, such as Gorgonzola and Caciovallo. It produces an insignificant amount of olive oil as by-product of the ripe olive industry, while the canned tomatoes and tomato paste are of a type used mainly by Italian-born. (Cf. Renne, *The Tariff on Dairy Products*, cited, p. 103; "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," cited, Part I, p. 137, 467.

79c. On March 1, 1934 Italy had most-favored-nation treaties or agreements with 63 countries, only four of which were of the conditional type. Although the United States is among those entitled to conditional most-favored-nation treatment, Italian policy has extended all tariff reductions to this country on the same basis as to countries possessing agreements of the unconditional type. (U. S. Tariff Commission, *Italian Tariff and Trade Restrictions on Imports from the United States since 1922.*)

79d. *Ibid.*

80. *New York Times*, May 14, 1934.

80a. *Ibid.*, May 13, 1934.

tions incurred by Italy in its tri-party pact with Austria and Hungary.[80b]

The value of the principal items entering into trade between the United States and Italy in 1930, with the duties assessed on each, was as follows:[80c]

UNITED STATES IMPORTS FROM ITALY

Commodity	Value (in thousands of dollars)	Duty*
Total	69,712	
Silk, raw	10,511	Free
Cheese	9,164	7¢ a lb
Textile fabrics	8,167	Various
Olive oil	7,353	8¢ a lb
Tomatoes preserved	3,103	50%
Dried fruits & nuts	2,558	Various
Citrus fruits	2,225	2½¢ a lb
Hats	2,029	Various

UNITED STATES EXPORTS TO ITALY

Commodity	Value (in thousands of dollars)	Duty*
Total	133,451	
Cotton	53,632	44¢ a lb
Wheat	15,388	$1.074 a bu.
Mineral oils	13,556	1.3—2.1¢ a lb
Copper	10,209	.35¢ a lb
Machinery	4,977	Various
Wood, common	4,610	Various
Office equipment, etc.	3,217	Various
Automobiles	2,896	56—61¢ a lb

*Duty as of January 15, 1934.

ARGENTINA

Argentina ranks as the most important of the countries with which the United States has had preliminary conversations regarding a new commercial agreement.[81] Particular significance has been attached to such a pact because of the successful treaty negotiated by Great Britain and Argentina in 1933, in which the former was granted certain tariff reductions and preferential treatment in the distribution of the foreign exchange obtained through the sale of Argentine products in the United Kingdom.[82] Although Britain subsequently lost most of this advantage when Argentina abandoned its system of exchange control,[83] there is every evidence that a certain amount of American trade has been diverted to the United Kingdom in recent years.[84] Much the same problem is confronted in negotiating with Argentina, however, as with Canada. To a considerable extent, Argentine exports are directly or indirectly competitive with American farm products, while its imports consist primarily of manufactured articles. Nevertheless, substantial opportunities remain for bargaining. At present the United States imposes a duty on more than 70 per cent of the Argentine products imported into this country, while all its leading exports to the Argentine are subject to at least a moderate duty.[85] The Tariff Commission's study would indicate that the United States might make substantial concessions on a number of dutiable articles now imported from Argentina, including flaxseed, quebracho extract, cattle hides and combing wool, and that it might also grant a seasonal tariff on grapes.[86] The chief articles of trade between the two nations in 1930 were as follows:[87]

UNITED STATES IMPORTS FROM ARGENTINA

Commodity	Value (in thousands of dollars)	Ad valorem equivalent of duty 1932 (per cent)
Total	71,890	
Flaxseed	24,620	100
Cattle hides	12,305	10
Carpet wool	4,235	115
Quebracho extract	3,810	15
Meats, canned	3,806	69
Sheep and lamb skins	2,059	Free
Sausage casings	1,988	Free
Goat and kid skins	1,967	Free
Combing wool	1,643	112

UNITED STATES EXPORTS TO ARGENTINA

Commodity	Value (in thousands of dollars)
Total	129,829
Automobiles, etc.	24,544
Gasoline, etc.	7,001
Timber, etc.	6,244
Lubricating oil	3,618
Cotton yarn	3,594
Cotton cloth	2,334
Radio sets	2,163
Rubber tires	2,157

ADVANTAGES AND DISADVANTAGES OF RECIPROCITY

Evaluation of the prospects of the Roosevelt tariff program is difficult because of the widely different problems confronted in negotiations with various countries. Some authorities assert that at best such tariff reduction as can be achieved by bilateral negotiations will be slight as compared with the needed levelling of trade barriers, while there is grave danger that bargaining with individual countries will result in special arrangements that will multiply existing injustices and prevent the adoption of a consistent tariff policy.[88] Past experience with this method in Europe is said to have been

80b. *Ibid.*, May 15, 1934.
80c. *Commerce Yearbook, 1932*, Vol. II, p. 161 (Italian statistics).
81. Cf. p. 78.
82. Treaty Series No. 2 (1934), *Convention between the Government of the United Kingdom and the Government of the Argentine Republic relating to Trade and Commerce* (London, H. M. Stationery Office, 1934), Cmd. 4492; Treaty Series No. 3 (1934), *Supplementary Agreement . . . relating to Trade and Commerce*, Cmd. 4494.
83. Cf. *New York Times*, December 1, 1933.
84. American exports to Argentina have fallen from $210,-300,000 in 1929 to $36,928,798 in 1933. During the same period British exports showed a much less drastic decline from £29,677,382 to £13,082,602 (Annual Statement of Trade of the United Kingdom for 1932, Vol. IV; Accounts Relating to Trade and Navigation of the United Kingdom, January 1934).
85. *Reciprocal Tariff Negotiations*, cited, p. 11.
86. Cf. p. 74-77.
87. *Reciprocal Tariff Negotiations*, cited.
88. Cf. *Reciprocity and Commercial Treaties, 1919*, cited, p. 9 *et seq.*

unsatisfactory on account of the tendency of many governments to increase tariffs for bargaining purposes.[89] It is also feared that the acceptance of the bargaining principle, with its emphasis on finding new markets for specific exports, will tend to increase the subservience of the government to highly organized business interests, and thereby greatly accentuate the likelihood of international conflict.

While granting the dangers involved in the bargaining method, many economists support it as the only practicable way of reducing tariffs at the present time.[90] It is argued that since other countries are winning an ever-increasing share in world trade by means of reciprocal agreements, the United States must have similar powers in order to protect existing markets for American exports.[91] All but two of the countries of Continental Europe, as well as Great Britain and a few Latin American states, have empowered the executive branch of their governments to negotiate duties below those provided in the general tariff schedules in making reciprocity agreements. In Canada, France, Germany, Poland, Switzerland, Japan and certain other countries, the Executive has been granted authority to enter into and make effective bargaining agreements without reference to legislature.[92] Bilateral negotiations are said, moreover, to be the only effective means of coping with the new forms of trade regulation which have developed since the World War. Bargaining can no longer be concerned solely or even primarily with duties, but must involve consideration of quotas, exchange control, depreciated currency and various forms of indirect protectionism.[93] While the padding of tariff rates preparatory to bargaining has admittedly become more serious in recent years, it is claimed that this could be counteracted if the United States would make it its policy to insist on removal of all the exceptional trade barriers erected during the depression.[94]

BARGAINING UNDER MOST-FAVORED-NATION TREATIES

Many authorities believe, furthermore, that the retention and clarification of the most-favored-nation clause will make it possible to avoid the worst features of bargaining and thereby assure an increase rather than merely a diversion of trade. The principle of equality of treatment has formed an integral part of the trade policy of the United States for many years,[95] and has recently been reaffirmed on at least two important occasions.[96] As a principle it appears to be inescapable in international relationships.[97] Retention of this clause will necessitate, however, a significant change in the technique of tariff bargaining as compared with past experience. Since some nations may be loath to make concessions that would be automatically extended to their competitors, it may be necessary in certain cases to confine bargaining to articles of which the respective countries are the chief suppliers.[98] This would restrict the scope of negotiations much less than is commonly supposed. A recent tabulation covering twenty-nine nations showed that an average of 71 per cent of all imported articles were listed as having come from the country which was the chief source of supply of that commodity for the importing state.

Other authorities insist that the most-favored-nation clause constitutes a barrier to effective bilateral negotiations, and believe that the clause should be drastically modified if not altogether abandoned.[99] The tendency to depart from the clause in its present form is particularly strong in Europe.[99a] As a concession to this feeling, the tariff bill passed by Congress provides an exception to most-favored-nation treatment with respect to Cuba, where the United States has long had a special arrangement, as well as in the case of any country which discriminates against American commerce.[100]

Opponents of the new tariff policy have also raised the question of whether any one man should be granted the power of life and death over American industry and agricul-

89. Cf. statement of Professor Cassel, World Economic Conference, *Report of the Proceedings of the World Economic Conference*, Sub-committee on Customs Tariffs and Commercial Treaties (Geneva, League of Nations, 1927), Vol. II, p. 76.

90. Cf. Bidwell, "Tariff Reform: The Case for Bargaining," *American Economic Review*, Supplement, April 1933.

91. Cf. President Roosevelt's tariff message, cited; also, Gardner Harding, "The World at War for Trade," *Current History*, April 1934.

92. For details, cf. U. S. Tariff Commission, *Regulations of Tariffs in Foreign Countries by Administrative Action*, March 1934; also, *Hearings before the Committee on Ways and Means of the House of Representatives*, cited, p. 5; *New York Times*, March 1, 2, 3, 10, 1934.

93. Cf. *Reciprocal Tariff Negotiations*, Foreign Commerce Department, Chamber of Commerce of the United States (Washington, 1933).

94. Cf. U. S. Tariff Commission, *Tariff Bargaining under Most-Favored-Nation Treaties*, cited, p. 2, 9-10.

95. The United States has unconditional most-favored-nation treaties with Germany, Austria, Norway, Estonia, Latvia, Hungary, Yugoslavia, Turkey, Honduras, El Salvador, China and Siam; and executive agreements containing the unconditional clause with Spain, Czechoslovakia, Poland, Finland, Lithuania, Rumania, Bulgaria, Greece, Albania, Brazil, Chile, Nicaragua, Guatemala, Haiti, the Dominican Republic, Persia and Egypt.

The conditional clause is contained in agreements with fourteen other countries. (Cf. *Tariff Bargaining under Most-Favored-Nation Treaties*, cited.)

For a further discussion of American policy, cf. Stewart, "Tariff Issues Confronting the New Administration," cited, p. 22.

96. Cf. "American Suggestions on Commercial Policy presented to the London Economic Conference," cited; also, "United States Economic Proposals before the Seventh International Conference of American States," cited.

97. Cf. Henry Chalmers, "Foreign Tariffs and Commercial Policies During the Depression," *Annals of the American Academy of Political and Social Science*, July 1934.

98. *Tariff Bargaining under Most-Favored-Nation Treaties*, cited, p. 2.

99. Cf. *New York Times*, March 26, 1934; cf. also F. W. Taussig, "Changes in Our Commercial Policy," *Foreign Affairs*, April 1933, p. 402.

99a. Cf. *The Economist* (London), February 17, 1934, p. 341.

100. United States, 72nd Congress, 2nd Session, H.R. 8687.

ture.[101] Tariff changes of any type, if they are effective, involve a redistribution of national income which may be far-reaching in scope. The very existence of such powers makes the tariff determining agency subject to tremendous pressure from groups seeking either to defend or enlarge their claims on the nation's wealth. Years of experience have demonstrated the inability of Congress to resist such pressure. The more specific interests of the protected industries have invariably outweighed the less tangible interests of exporters and consumers, and the only safeguard against this tendency lies in the possibility of balancing off rival economic groups, so as to permit consideration of the larger issues of public welfare. Thus, by dramatizing the gains to be obtained by the exporters as a group, the bargaining method may contribute substantially towards an equalization of political pressure.

TARIFF COMMISSION STUDY A PROTECTION TO PRODUCER

This process need not involve undue delay because of the comprehensive nature of the material already prepared by the Tariff Commission.[102] Tables have been assembled showing the import and export trade of the United States with a score of foreign countries by commodities. An analysis has been made of the relative position of each of these countries as a source of supply of the principal articles imported into the United States, and of the relative importance of this country as an exporter of specific commodities. The Tariff Commission's study also includes a description of the special trade restrictions in force in each country, the rates of duty charged on leading American exports, and the customs rates levied on the principal imports into the United States from these countries. In addition, the Tariff Commission and the Department of Commerce have built up comprehensive sources of information through years of study of the tariff problem which serves as a guarantee against precipitate action. Full protection is afforded to the producers, moreover, by a Senate amendment which provides that changes in the tariff schedule cannot be made effective until the industries chiefly affected have been given an opportunity for hearings.[103]

With these safeguards it may be possible to achieve the needed revival of trade through tariff bargaining even though former efforts in this direction have failed. Nothing is to be gained, however, by minimizing the fact that efforts to strike a good bargain with other countries may lead to an intensification of trade rivalries. The present Anglo-Japanese controversy[104] illustrates the danger of putting the government in a position where it must support domestic trade groups in their struggle for world markets. As a protection against this tendency, the success of the Roosevelt trade policy depends on the willingness of the United States to make immediate and tangible concessions. A new principle, as well as a new technique, is needed if the disastrous drift toward economic nationalism is to be stemmed. No country is in a better position than the United States to experiment with a new type of reciprocal agreement based on a generous interpretation of the traditional American principle of equal treatment. If negotiations can be carried on in this spirit, bilateral agreements may become invaluable as instruments for controlling international trade so as to eliminate the waste of planless competition.

101. Cf. *Report of the Committee on Ways and Means on H.R. 8687* (73rd Congress, 2nd Session, House of Representatives, Report No. 1000), p. 82; also, *Reciprocal Trade Agreements, Hearings on H.R. 8430,* cited, p. 448.
102. Cf. especially material prepared in response to Senate Resolution 334, 72nd Congress, 2nd Session.
103. *New York Times,* May 3, 1934.
104. *Ibid.,* May 8, 9, 10, 1934.